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SUBJ: INDONESIAN TEAM DISCUSSIONS AT EXIMBANK JULY 8-12

BEGIN UNCLASSIFIED. 1. TWENTY-ONE MEMBER SENIOR INDONESIAN TEAM LED BY DR. SALEH AFIFF, DEPUTY DIRECTOR, INDONESIAN PLANNING AGENCY, MET WITH CHAIRMAN CASEY AND EXIMBANK OFFICIALS JULY 8-12 TO REVIEW INDONESIAN PROJECT PROPOSALS FOR POSSIBLE EXIMBANK FINANCIAL PARTICIPATION AND TO DISCUSS PROCEDURES FOR FUTURE EXIMBANK ACTIVITY IN INDONESIA. CHAIRMAN CASEY EXPLAINED HIS INTENT TO VISIT INDONESIA, BUT NOTED THAT THE TIMING MUST REMAIN UNCERTAIN BECAUSE HE IS NOT ABLE TO MAKE FIRM PLANS UNTIL THE LEGISLATION RENEWING EXIMBANK AUTHORITY IS COMPLETED.

2. FOLLOWING PRINCIPAL ACTIONS EMERGED DURING TALKS:

(A) FROM LIST OF SOME 50 PROJECTS WITH A TOTAL FOREIGN

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EXCHANGE COST OF ABOUT \$2 BILLION DOLLARS (EXCLUDING POTENTIAL

PERTAMINA AND GARUDA CASES), INDONESIANS ASSIGNED PARTICULAR PRIORITY TO 7 TRANSACTIONS WITH TOTAL FOREIGN EXCHANGE COST FO AT \$355 MILLION. THESE ARE: (1) FOUR POWER PROJECTS, \$105 MILLION; WEST JAVA AND JAKARTA POWER PLANT, EAST JAVA GAS TURBINE POWER PLANT, MEDAN GAS TURBINE POWER PLANT, EAST KALIMANTAN POWER PLANT; (2) DOMESTIC SATELLITE COMMUNICATION \$134 MILLION; (3) A LAND RECLAMATION PROJECT, \$91. MILLION; (4) DREDGING VESSELS, \$25 MILLION. EXIMBANK AGREED TO REVIEW THESE PROJECTS AS FORMAL APPLICATIONS, REQUESTING FURTHER INFORMATION IF NEEDED. IN ADDITION EXIMBANK ALREADY HAS UNDER CONSIDERATION \$44 MILLION FOR GRESIK CEMENT PLANT EXPANSION AND \$8 MILLION FOR THREE DC-9 AIRCRAFT FOR GARUDA. INDONESIANS REQUESTED REPLY AT EARLIEST POSSIBLE DATE ON TELECOMMUNICATIONS PROJECT FOR WHICH THEY ARE NOW ACTIVELY CONTRACTING.

(B) URGING REALISM NOW TO AVOID MISUNDERSTANDING

LATER, CHAIRMAN CASEY MADE CLEAR THAT EXIMBANK COULD CONSIDER PARTICIPATING IN ONLY SOME CASES FROM THE LARGE LIST PRESENTED, AND ONLY AFTER CAREFUL STUDY. STUDY WILL HAVE TO INCLUDE REVIEW OF INDONESIAN ECONOMIC SITUATION, DEVELOPMENT GOALS, NON-U.S. SOURCES OF DEVELOPMENT FINANCING. AND CONSTRAINTS ON EXIMBANK RESOURCES. PURPOSE OF EXIMBANK ANALYSIS WILL BE TO ADVISE INDONESIANS AS TO GENERAL EXIM APPROACH TOWARD FUTURE ACTIVITY IN INDONESIA, TYPES OF PROJECTS FOR WHICH EXIMBANK WILL BE ABLE TO CONSIDER APPLICATIONS, AND ATTITUDE TOWARD SPECIFIC APPLICATIONS ALREADY IN THE BANK AS SOON AS EACH CASE IS CONSIDERED BY THE BOARD OF DIRECTORS.

(C) CHAIRMAN CASEY DESCRIBED IN DETAIL THE UNPRECEDENTED PROBLEMS OF STRETCHING EXIMBANK RESOURCES, IN LIGHT OF RISING MONEY COSTS, INFLATION AND GROWING NUMBER AND SIZE OF APPLICATIONS TO THE BANK, WHICH CONTRIBUTED TO THE NEW EXIMBANK POLICIES ANNOUNCED JULY 9 CONCERNING FUTURE CASE-BY-CASE BANK DECISIONS AS TO INTEREST RATE, EXIMBANK PARTICIPATION SHARES IN CREDITS AND GUARANTEES AND GUARANTEE FEES (SEE CIRCULAR TELEGRAM #153022/JULY 16/74.) DR. AFIFF SAID HE WAS UNDER INSTRUCTIONS TO EXPLAIN THAT FINANCE LIMITED OFFICIAL USE

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MINISTER WARDHANA WAS "DISTURBED" OVER THE CHANGES IN EXIM-

BANK POLICIES SINCE INDONESIA HAD COUNTED ON THE PREVIOUS EXIMBANK 10-45-45 FORMULA AND 7 PERCENT INTEREST AND HAD HOPED EXIMBANK COULD CONSIDER 15 YEAR REPAYMENT TERMS AS A GENERAL POLICY FOR INDONESIA. MR. CASEY SAID EACH APPLICATION WOULD BE REVIEWED ON AN AD HOC BASIS REGARDING AMOUNT OF LOAN, INTEREST RATE AND REPAYMENT TERM AND THAT 15YEAR TERM CLEARLY

NOT ACCEPTABLE.

(D) INDONESIANS WILL SEND EXIMBANK ADDITIONAL INFORMATION REQUESTED BY CHAIRMAN CASEY ABOUT INDONESIA'S ECONOMIC SITUATION AND BALANCE OF PAYMENTS, VARIOUS GLOBAL SOURCES OF ITS DEVELOPMENT FINANCING AND PROJECTED FUTURE DEBT.

(E) INDONESIANS VOLUNTEERED READINESS TO DISCUSS AN OPERATING AGREEMENT WITH EXIMBANK. BANK ADVISED THEM NO SUCH AGREEMENT NECESSARY FOR EXIMBANK PURPOSES, BUT BANK WOULD LIKE TO KNOW ANY PROCEDURES INDONESIANS WOULD LIKE IT TO FOLLOW FOR THEIR PURPOSES. INDONESIANS SAID THEY INTEND TO DRAFT FINANCE MINISTER LETTER TO EXIMBANK DESCRIBING PROCEDURES TO BE FOLLOWED WITHIN INDONESIAN GOVERNMENT CONCERNING APPLICATIONS TO EXIMBANK, INCLUDING HOW EXIMBANK MAY OBTAIN GOVERNMENT GUARANTEES ON CASE-BY-CASE BASIS.

(F) IN VIEW EXIMBANK RESOURCE LIMITATIONS, CHAIRMAN CASEY ASKED INDONESIANS WHAT EXIM SHOULD ANTICIPATE IN GAS AND OIL PROJECTS, WHICH WERE EXCLUDED FROM LIST PRESENTED TO THE BANK BUT COULD BE SUBSTANTIAL. INDONESIANS SAID PERTAMINA (AND GARUDA) WOULD BE MAKING APPLICATIONS SEPARATELY AND ON THEIR OWN. HE ALSO ASKED INDONESIANS TO CLARIFY WHICH FIVE-YEAR PLAN PROJECTS THEY EXPECTED TO FINANCE THROUGH THE WORLD BANK IN VIEW OF SOME OVERLAP IN INFRASTRUCTURE PROJECTS (POWER, HIGHWAYS) WHICH THEY PRESENTED TO EXIMBANK AND THOSE THEY SAID THEY WERE ALSO DISCUSSING WITH IBRD. (FYI. TEAM MENTIONED THEY WERE NEGOTIATING WITH IBRD FOR \$400 - 600 MILLION IN NEW CREDIT AUTHORIZATIONS DURING THE PERIOD JULY 1974 - JUNE 1975. END FYI).

3. INDONESIANS CAME WELL PREPARED WITH CONSIDERABLE SUPPORTING DOCUMENTATION FOR ANY PROJECTS ON TWO BILLION LIMITED OFFICIAL USE

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DOLLAR LIST. SIX GENERAL ATEGORIES OF PROMJECTS WERE DISCUSSED: (A) INDUSTRIAL PROJECTS, INCLUDING GRESIK CEMENT, \$292 MILLION; (B) WATER RESOURCE DEVELOPMENT, \$272 MILLION; (C) MINING, \$220 MILLION; (D) TRANSPORTATION AND COMMUNICATION PROJECTS, \$460 MILLION; (E) POWER PROJECTS, \$407 MILLION; (F) HIGHWAY PROJECTS, \$429 MILLION. END UNCLASSIFIED.

BEGIN LIMITED OFFICIAL USE AND FYI. 4. INDONESIAN PROJECT LIST WAS SURPRISING IN EXTENSIVE NUMBER AND SIZE OF PROJECTS AND NUMBER OF CASES IN INFRASTRUCTURE AREAS WITH ARE OUTSIDE USUAL EXIMBANK FINANCING. NEVERTHELESS, EXIMBANK BELIEVES THAT BASIC OBJECTIVES OF TEAM VISIT, AS DISCUSSED WITH INDONESIAN EMBASSY DURING PLANNING STAGES, WERE ACCOMPLISHED. INDONESIANS HAD OPPORTUNITY

PRESENT TOTAL PACKAGE OF PROJECTS FROM FIVE-YEAR PLAN WHICH THEY WISH EXIMBANK TO CONSIDER OVER COMING YEARSKKK, AND PROJECTS WITH SUBSTANTIAL VALUE OF \$355MILLION ARE BEING REVIEWED IMMEDIATELY AS FORMAL APPLICATIONS. TEAM PRESSED HARD FOR INDICATIONS OF EXIMBANK ATTITUDE TOWARD SOME CASES EVEN BEFORE TEAM RETURNED, INDICATING THAT SENIOR MEMBERS OF DELEGATION WERE PREPARED TO STAY LONGER TO REVIEW THEIR PROJECTS WITH EXIMBANK STAFFS. HOWEVER, CHAIRMAN CASEY POINTED OUT THE VISIT WAS ORIGINALLY DESIGNED TO BRING TO EXIMBANK OVERALL PICTURE OF POTENTIAL INDONESIAN APPLICATIONS AND COUNTRY ECONOMIC SITUATION, LEAVING SPECIFIC EXIMBANK RESPONSES TO A LATER DATE AFTER EXIM HAD TIME TO STUDY THE INDONESIAN PROJECTS IN LIGHT OF THEIR MERITS AND THE INDONESIAN ECONOMIC SITUATION.

5. SOME SENIOR MEMBERS INDONESIAN DELEGATION MAY BE DISAPPOINTED THAT EXIMBANK STAFF DID NOT DISCUSS THEIR PARTICULAR PROJECTS IN FURTHER DETAIL, BUT EXIMBANK POINTED OUT ITS STAFF NEEDS TIME (AMIDST HEAVY WORKLOAD OF GLOBAL APPLICATIONS) TO REVIEW EXTENSIVE DOCUMENTATION JUST PROVIDED BEFORE IT IS POSSIBLE TO RECOMMEND TO EXIMBANK BOARD OF DIRECTORS WHICH PROJECTS MAY BE APPROPRIATE FOR EXIMBANK PARTICIPATION AND FOR WHICH FURTHER DETAILED DISCUSSIONS MAY BE NECESSARY TO ELICIT MISSING INFORMATION. IT IS EVIDENT THAT INDONESIANS ARE JUST BEGINNING TO EDUCATE THEMSELVES ABOUT THE NATURE OF LIMITED OFFICIAL USE

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BORROWING ON MORE COMMERCIAL TERMS IN TODAY'S TURBULENT MONEY MARKETS AND THE TYPES OF PROJECTS TO PRESENT FOR COMMERCIAL FINANCING. IN ADDITION TO CAREFULLY EXPLAINING EXIMBANK'S NEW POLICIES OF JULY 9, CHAIRMAN CASEY URGED INDONESIANS TO PURSUE EXPLORATORY TALKS WITH U.S. COMMERCIAL BANKS AND SUPPLIERS IN COMING WEEKS; INDONESIAN DIRECTOR FOR MONETARY AFFAIRS HAS JUST BEGUN BANK DISCUSSIONS. END FYI AND LIMITED OFFICIAL USE. INGERSOLL

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